

Message Text

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PAGE 01 DACCA 03313 250433Z
ACTION NEA-11

INFO OCT-01 ISO-00 AID-05 AGRE-00 EB-08 COME-00 TRSE-00
SP-02 CIAE-00 INR-10 NSAE-00 /037 W
-----109093 250441Z /11
P 250346Z MAY 78
FM AMEMBASSY DACCA
TO SECSTATE WASHDC PRIORITY 9456

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PASS AID/ASIA/BIS AND USDA

E.O. 11652: N/A
TAGS: EAID EAGR BG
SUBJECT: TITLE III

REFS: A. STATE 130751; B. STATE 130829; C. DACCA 3137
D. DACCA 3193; E. KANSAS STATE UNIVERSITY, QUOTE FOOD
GRAIN RESERVES IN DEVELOPING COUNTRIES UNQUOTE, MARCH, 1978,
AID/TA-C-1162 (F) WORLD BANK REPORT 1764A-BD QUOTE FOOD
POLICY REVIEW UNQUOTE.

1. MISSION APPRECIATES ENCOURAGING RESPONSES PROVIDED REFS A
AND B. WE SUGGEST THAT WASHINGTON AGENCIES MAY WISH TO CONSIDER
TWO REPORTS, REFS E AND F, IN THEIR DELIBERATIONS ON THE IMPORTANCE
OF GRAIN PRICE STABILIZATION. WHILE WE HAVE MADE PRIOR REFERENCE
TO THE BANK'S REPORT (REF F), WE HAVE JUST RECEIVED COPIES OF REF
E. PURPOSE OF THIS MESSAGE IS TO SUMMARIZE SALIENT POINTS MADE
IN REF E. AN ANALYSIS, IF REQUIRED, WILL HAVE TO COME LATER.

2. REF E, PART I IS AN ANALYSIS OF TACTORS RELATING TO LDC FOOD
GRAIN RESERVES AND SUGGESTS A PACKAGE OF AID POLICIES TO BUILD
AND MAINTAIN FOODGRAIN RESERVES. PART II SUGGESTS GUIDELINES
FOR ASSESSING THE ECONOMIC FEASIBILITY OF BUILDING LDC RESERVES
USING BANGLADESH AS THE CASE STUDY. OF PARTICULAR INTEREST IN THE
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SECTION ENTITLEDQUOTE MEASURING THE BENEFITS FROM IMPROVED
(PRICE) STABILITY UNQUOTE (PAGES 48 TO 51). HERE THE AUTHORS
ATTEMPT TO ANSWER THE FOLLOWING QUESTIONS: QUOTE HOW MUCH
INSTABILITY IN FOOD GRAIN SUPPLIES AND PRICES CAN BE TOLERATED IN
BANGLADESH? HOW SERIOUS ARE THE NEGATIVE IMPACTS FROM EXTREME
VARIATIONS, AND HOW GREAT ARE THE BENEFITS TO BE DERIVED BY RE-
MOVING THE EXTREMES? QUOTE (P.48). THE AUTHORS NOTE THAT THERE ARE

EMPIRICAL QUESTIONS WHICH CAN BE ANSWERED ONLY BY ECONOMIC IMPACT STUDIES. NEVERTHELESS THEY PRESENT A MODEL IN WHICH IT IS ASSUMED THAT

THE BDG'S DOMESTIC PROCUREMENT PROGRAM AND FOOD DISTRIBUTION SYSTEM ARE EFFECTIVE IN CONTROLLING MARKET PRICES WITHIN A RANGE OF PLUS OR MINUS 15 PERCENT OF NORMAL. ON THIS ASSUMPTION THE AUTHORS HAVE CONSTRUCTED A TABLE (P.50) WHICH SHOWS THE BENEFICIAL AND ADVERSE IMPACTS OF PRICE VARIATIONS BY POPULATION GROUP, I.E. CONSUMERS AND TAXPAYERS, CONSUMING FAMILIES, FARM FAMILIES, PRODUCERS, RESOURCE OWNERS (THE LATTER OF WHICH IS AN APPARENT EUPHEMISM FOR LANDLORDS AND

MONEY LENDERS). IN GENERAL, THE TABLE SHOWS THAT PRICE VARIATIONS GREATER THAN 15 PERCENT ABOVE NORMAL HAVE A SUBSTANTIAL ADVERSE IMPACT UPON CONSUMING FAMILIES, PARTICULARLY THOSE WITH LOW INCOME AND THAT PRICE VARIATIONS WHICH FALL 15 PERCENT OR MORE BELOW NORMAL HAVE A SIMILAR SUBSTANTIAL ADVERSE IMPACT UPON FARM FAMILIES AS CROP PRICES FALL BELOW LEVELS NEEDED TO COVER PRODUCTION INPUT COSTS. PUT ANOTHER WAY, THE SOCIETY IS IN THE BEST POSITION WHEN PRICES VARY ON MORE THAN PLUS OR MINUS 15 PERCENT AROUND NORMAL, OR A RANGE OF 30 PERCENT. ALSO OF INTEREST ARE THE AUTHOR'S OBSERVATION ON THE SEVERE IMPACT OF A 50 PERCENT RISE IN FOOD PRICES AS FOLLOWS: QUOTE SUCH AN EXTREME DEVIATION MAY ALSO HAVE ADVERSE EFFECTS ON SMALL PRODUCERS (BY CAUSING UNECONOMIC RESOURCE ALLOCATIONS), ON THE MARKET SYSTEM AND ON THE GENERAL PUBLIC THROUGH INFLATION, BUT THE PRIME INCIDENCE IS EXPECTED TO FALL UPON CONSUMERS. THE FAVORABLE IMPACTS OF SUCH A DEVIATION ARE EXPECTED LIMITED OFFICIAL USE

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TO ACCRUE PRIMARILY TO AGRICULTURE RESOURCE OWNERS RATHER THAN TO ACTIVE FARM PRODUCERS BECAUSE THE HIGH ANNUAL AVERAGE PRICES WILL BE CAPITALIZED INTO RESOURCE COSTS UNQUOTE (P.51).

3. AS WASHINGTON AGENCIES ARE AWARE, THE BDG DOES NOT PRESENTLY THE MEANS TO MAKE THE UNDERLYING ASSUMPTIONS OF THESE CALCULATIONS COME ALIVE. THE BDG HAS BEEN SUCCESSFUL, ONLY THIS YEAR, IN SUPPORTING PRICES DURING THE PROCUREMENT SEASON. BUT DURING THE LEAN SEASON THE BDG'S RATION SYSTEM IS NOT A WHOLLY EFFECTIVE MECHANISM FOR CONSTRAINING OPEN MARKET PRICES. AS A CONSEQUENCE OPEN MARKET PRICES FLUCTUATE MORE THAN THE 20 TO 25 PERCENT RECOMMENDED BY THE WORLD BANK OR THE 30 PERCENT USED IN KSU'S ILLUSTRATION SUMMARIZED ABOVE. THIS IS WHAT OUR TITLE III PROPOSAL IS ALL ABOUT.

DECONTROL: AFTER MAY 24, 1979
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS, AGRICULTURAL DEVELOPMENT, GRAINS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978DACCA03313
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780220-0459
Format: TEL
From: DACCA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780521/aaaaaran.tel
Line Count: 111
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 44f74497-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 STATE 130751, 78 STATE 130829, 78 DACCA 3137, 78 DACCA 3193
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2577021
Secure: OPEN
Status: NATIVE
Subject: TITLE III
TAGS: EAID, EAGR, BG
To: STATE
Type: TE
vdkgvkey: odb://SAS/SAS.dbo.SAS_Docs/44f74497-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014